

**Consumer Electronics Association Submission for the Record
FOR: First in a Series of Three Hearings on the Pending, Job-Creating Trade
Agreements**

**TO: U.S. House of Representatives Committee on Ways and Means
Subcommittee on Trade**

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Name: Sage Chandler, Senior Director, International Trade
Organization : Consumer Electronics Association
Address: 1919 South Eads
Arlington, VA 22202
Phone Number: 703-907-5262
Contact E-mail Address : schandler@ce.org

I. Background on CEA

CEA is the preeminent trade association promoting growth in the consumer electronics industry through technology policy, events, research, promotion and the fostering of business and strategic relationships. CEA represents more than 2,000 corporate members involved in the design, development, manufacturing, distribution and integration of audio, video, mobile electronics, wireless and landline communications, information technology, home networking, multimedia and accessory products, as well as related services.

CEA's members account for more than \$121 billion in annual sales in the United States. This figure represents approximately 40 percent of all CE sales worldwide. The CE industry directly employs approximately 1.9 million workers in the United States. Of these, 212,000 jobs are in manufacturing; 574,000 are in retail; 38,000 are in transportation; and 1,073,000 are in parts of the U.S. economy that solely depend on the utilization of CE products, such as the motion picture and sound recording industries, telecommunications, broadcasting, and software development. Many of these jobs are on the cutting-edge of technology, including jobs related to the research and development of new technologies, as well as the marketing and design of new products. The CE sector directly generates \$1.4 trillion in output, \$325 billion in labor compensation, \$145 billion in tax payments, and 4.4 million jobs in the United States. This economic activity translates into a direct contribution of \$585 billion by the CE sector to U.S. gross domestic product ("GDP") — 4.6 percent of the entire national economy.

This robust industry picture has occurred despite the fact that CE markets around the world are not as open as they should be. The World Trade Organization ("WTO") Information Technology Agreement ("ITA"), while an important boon to the global technology industry, does not include most CE products. Consequently, many CE products are still subject to significant tariffs and non-tariff barriers around the world. The persistence of these trade barriers informs CEA's position with respect to trade negotiations. CEA views bilateral trade agreements, for instance those negotiated but not yet passed, with Colombia, Panama and South Korea, and the Trans-Pacific Trade Partnership (TPP) currently under negotiation, as one vital step in reaching the larger goal of multilateral trade liberalization.

The CE industry is a highly competitive, efficient, and globally integrated industry. These factors, coupled with the large investment needed to manufacture CE products, result in CE products often having narrow profit margins. In the absence of a multilateral agreement covering CE products, small price changes resulting from duty savings stemming from free trade agreements (FTA) can have the effect of shifting quantities of products demanded to those products produced by favored manufacturers, i.e., those trading with the benefit of an FTA. Accordingly, CEA favors global trade liberalization, which best avoids the trade distortions that may benefit some members while disadvantaging others, and ultimately could be detrimental to consumers. Lowering barriers on a reciprocal basis will have a positive effect in terms of maximizing areas in which the US CE industry has competitive edges, such as in high technology parts, research and development,, design, and the launching of new products.

The last two decades have largely been defined by two trends — globalization and technological change. The CE sector, which includes companies that manufacture and distribute electronic products to consumers and that supply content and services for use with these products, has been profoundly affected by both trends. The rise of the Internet, computers, and cellular telephones has revolutionized the way people communicate, shop, learn, and live, in addition to changing the types of products that consumers purchase. While manufacturing of many consumer electronics products has moved abroad, domestic employment in industries supplying content and services for these products has risen. International trade and technological advances have improved the quality and variety of consumer electronics products available and lowered prices. Including indirect and induced effects, the industry contributes \$2.6 trillion of total output, \$836 billion of labor compensation, \$321 billion in taxes, and 15.4 million jobs. The direct, indirect and induced economic activity translates into a \$1.3 trillion contribution by the CE sector to U.S. GDP — 10.4 percent of the entire national economy. Trade is an important component of U.S. economic activity in the CE sector, and exports remain the largest element of trade's contribution. Exports of goods and services account for 10 percent of total CE sector output. This translates into approximately 1.5 million U.S. jobs reliant on CE exports and 2.4 million jobs reliant on trade overall. Tax payments of \$6 billion are attributable to the sale of U.S. CE goods and services overseas. That number grows to approximately \$30 billion when indirect and induced effects are included.

II. Benefits of the pending free trade agreements

The United States is involved in only a handful of free trade agreements under negotiation today. Almost 400 FTAs are in force around the world according to the World Trade Organization, with more pending. This trend leads to the conclusion that the world is moving ahead in reducing trade barriers while the U.S. has fallen behind..

Our economy, and the consumer electronics industry needs exports and open trade policies to innovate, create jobs and to grow. Over 95 percent of the world's population lives outside of the United States. There is no question that we must look beyond our borders to increase market access in order for U.S. businesses to grow and create American jobs. More, there is no question that the Korean, Panama and Colombia FTAs will help level the playing field for U.S. exports of goods and services. In fact, today some 5,600 American businesses export to Panama. Over 4,000 of these are small or medium-sized companies. Passage of the Panama agreement, and

other FTAs, will empower these companies to expand their market opportunities and in doing so boost U.S. exports – one of the few bright spots in the economy.

The United States unilaterally opened its market to Colombia through the Andean Trade Preference Act and the Caribbean Basin Initiative in 1991, and more than 90 percent of our imports from these countries already enter our market duty free. By contrast, exports of U.S. manufactured goods to Colombia face an average tariff of 14 percent, and up to 20 percent on some Consumer Electronic products.

The top U.S. exports in the CE sector are television cameras and reception apparatus, insulated coaxial cable, and generating sets. Colombian tariffs range between 5 and 20 percent with an average of 11 percent. For electrical and electronic equipment, 68 percent of U.S. industrial exports will receive duty free treatment immediately upon implementation of the Colombia Trade Promotion Agreement. US exports to Colombia reached \$11 Billion in 2010. Tariffs on these products make our companies less competitive, ultimately costing US workers jobs.

As is true for all three pending trade agreements, many CE companies attempting to sell their product in Colombia are small and medium sized companies. For each day the Colombia trade deal is not passed, U.S. exporters pay \$2 million in unnecessary tariffs and this is making our companies, especially the small companies, less competitive than other nations which have already signed trade agreements with Colombia, such as Canada.

All three FTAs include important disciplines relating to customs administration and trade facilitation, technical barriers to trade, government procurement, investment, telecommunications, electronic commerce, intellectual property rights, and labor and environmental protection.

With respect to the Korean free trade agreement (KORUS), the U.S. Consumer Electronics industry is a major benefactor from tariff cutting measures. Among South Korea's Top Imports from America are several CE categories or contain CE

- Semiconductors ... US\$3.1 billion (8.9% of US exports to South Korea)
- Industrial machines ... \$2.4 billion (6.8% of US exports to South Korea)
- Telecommunications equipment ..\$791.2 million
- Electric apparatus.. \$744.6 million

South Korea's consumer electronics devices market, defined as the addressable market for computing devices, mobile handsets and AV products, is projected to be worth around US\$12.7bn in 2010. This is expected to increase to US\$12.9bn by 2014. Growth opportunities in this mature market will be driven to a large extent by product innovation such as smartphones and touch-screen handsets as well as LED and 3D TV sets.

Other benefits of passage include a commitment by Korea to permit U.S. companies within two years to own up to 100 percent of a telecommunications operator in Korea.

- Ensures U.S. operators cost-based access to the services and facilities of dominant Korean phone companies, including their submarine cable stations, facilitating U.S. companies' ability to build competing networks to serve customers in Korea.

- Ensures improved market access for U.S. broadcasting and audiovisual service providers, including through a commitment by Korea to allow within three years 100 percent foreign ownership of program providers for U.S. firms that establish a Korean subsidiary.
- Ensures non-discriminatory and duty-free treatment of all digital products (e.g., software, audio-visual products, etc.), whether imported in physical form or over the Internet.

Indeed, the pending free trade agreements with Panama, Colombia, and Korea have the potential to significantly promote and enhance trade in the important consumer electronics industry sector, to the benefit of businesses and consumers in the United States and those nations. Passage will ensure continued job creation in our nation, particularly in small and medium sized enterprises.

The Administration's goal to double exports in 5 years is noble, and a needed element of US economic recovery. All America need consider are the export numbers from previous years. Between 2003 to 2008, US exports rose 79%. That percentage bears direct relevance to the 10 FTAs passed during that time frame. Now, other nations have recognized the economic advantage to negotiated FTAs. As the US idles on passage of job-creating trade agreements, other nations are passing agreements, making them ever more competitive to US business, and particularly affected small and medium sized enterprises. US workers live in the same globalized economy as their competitors. It is time for Congress to vote, to better prepare them to compete. The Consumer Electronics Association urges swift action, and passage of the three pending FTAs as a vital element of US economic recovery, and job creation.